MEDICARE REIMBURSEMENT INEQUITY

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MESSAGE

- Medicare payments are highly variable in different localities
- Wisconsin is significantly underfunded
- Cost shifting results in GAP being closed by other payors
- Recommendations to fix the physician payment system

Marshfield Clinic Perspective

- Pure physician-based revenue stream
- Not-for-profit operations
- No Part A revenue
- Capability to allocate costs across payors
- Identification of sources of payment shortfalls
- Last three years net earnings ranged from 0.86% to 2.87% - minor fluctuations have material impact on operations
- 2002 revenue impact – negative 2.8 million projected

Medicare Underfunding

- Current law for physician payment established 1989, adjustments have resulted in current SGR system
- Payment Adequacy
- Update Adequacy
- Formula Integrity – statutory logic errors
  - Must be addressed by Congress

Payment Adequacy

- Conflicting Objectives of Federal Policy
  - First priority: Restrain spending nationally to preserve program for future generations
  - Second priority: Cover the costs of medically necessary services provided by efficient providers
  - To accomplish the first, forego the second

Payment Adequacy

- MGMA's cost survey 1992-2000 showed total operating costs per physician rose 31.7% (physician Medicare payment increased 13%)
- Medicare covered approximately 40% of actual cost increases during this period
- FY 2000 - 71.5% of Medicare allowable costs
  FY 2001 – 70.59%
  FY 2002 – 68.5%

Update Adequacy

- Volatile formula
- CMS predicted 0.2% reduction 3/01 but 5.4% reduction announced 11/01/01
- CMS has projected further reductions totaling 17% over the next five years
- Formula tied to GDP
- Multiple projection errors

Formula Integrity

- Geographic adjusters of physician work
- Proxies of physician work measured in local markets
- Physicians compete in national markets
- This is not the same issue as the hospital wage index

Medicare Underfunding

- Medicare not keeping pace with changes in health care delivery
- Medicare not keeping pace with benefits available in private sector
- Medicare does not reimburse many desirable disease management activities
- Disease management savings accrue to Part A of the Medicare program

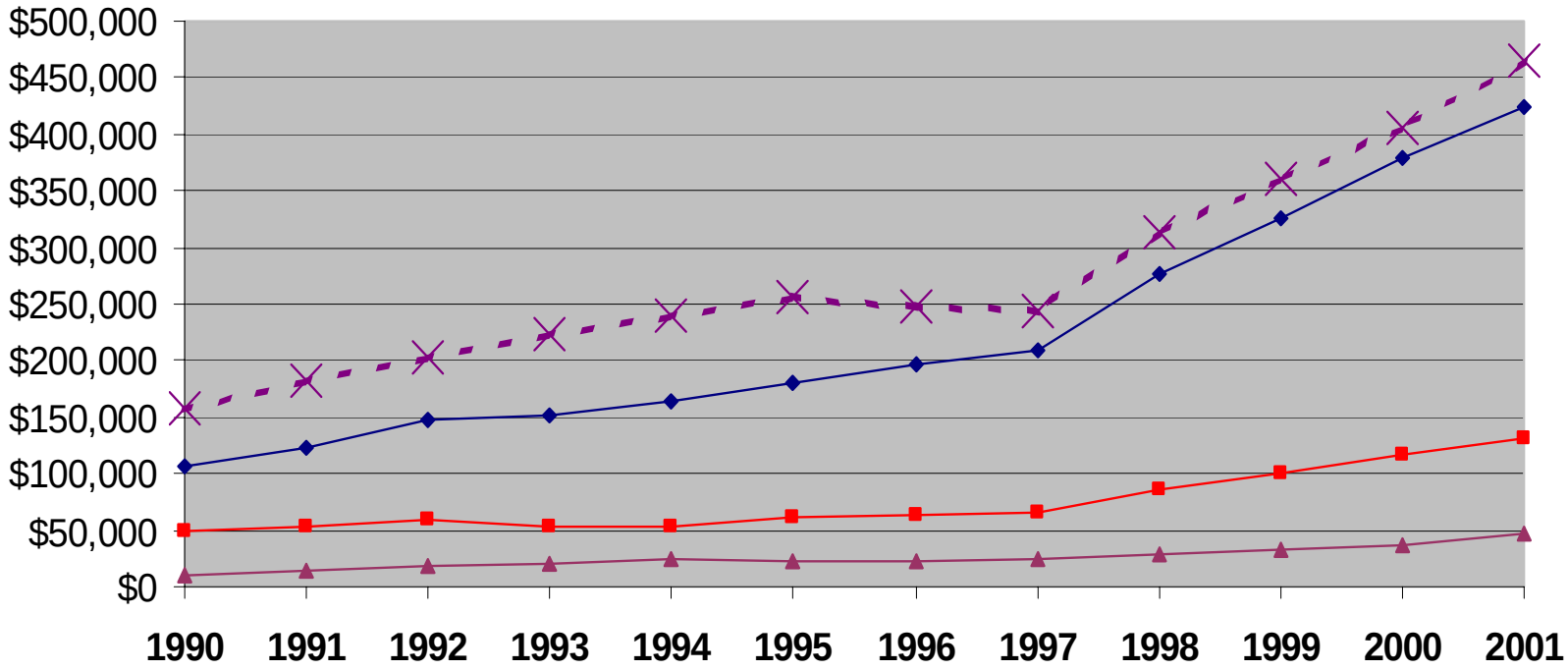
Medicare Underfunding

Magnitude of the problem

- **18% of the population of clinic service area is 65 or older in the Marshfield service area**
- **Medicare covers 40 million people, to double by 2030**
- **Physician spending accounted for 41 of 238 billion in 2001**
- **According to National Bi-partisan Commission on the future of Medicare, currently have 3.9 workers per Medicare beneficiary. In Wisconsin there are 3.04 workers per Medicare beneficiary – a ratio not expected until 2017. In some counties, ratio is below 2 to 1.**

BILLED CHARGES

(in thousands)



What This Means

- **Increases in spending will be borne by patients and providers**
- **Medicare shortfalls are subsidized by private sector insurers – Wisconsin premiums for commercial insurance according to Modern Healthcare 12/01 ranked 7th highest in the nation**
- **Some payors link reimbursement to Medicare payment – with commensurate drop from other payors damages clinic's ability care to all**

What's Happening?

- President Bush's FY '03 budget proposed $190 billion to improve HI Plan option
- Last three years net earnings ranged from 0.86% to 2.87% - minor fluctuations have material impact on operations
- 2002 revenue impact – negative 2.8 million projected

RECOMMENDATION

- **5.4% reduction in Medicare fee schedule – costs Wisconsin $40 million CY '02**
- **To eliminate the SGR – supported by MedPac, results in a 2.5% increase payment for 2003 versus – 5.7% update with current system**
- **Create methodology that bases Medicare reimbursement on formula that measures actual practice costs – if MEI used, must include costs not currently counted**
- **Fix GPCI – Congress must distinguish between payment adequacy and update adequacy and address the underlying problem that the baseline from which Medicare payment starts, is significantly below the cost of providing services.**